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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Oversee
the Resource Adequacy Program, Consider
Program Refinements, and Establish Forward
Resource Adequacy Procurement Obligations.

Rulemaking 19-11-009
(Filed November 7, 2019)

**COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 E) ON
TRACK 1 PROPOSALS**

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I. INTRODUCTION

Pursuant to the schedule set forth in the *Assigned Commissioner’s Scoping Memo and Ruling*, dated January 22, 2020, and in accordance with the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), Pacific Gas and Electric Company (“PG&E”) respectfully submits these opening comments on the Track 1 proposals submitted by parties on February 28, 2020.

II. COMMENTS ON TRACK 1 PROPOSALS

A. The Commission Should Adopt Energy Division Staff’s Proposal on Import Resource Adequacy

PG&E supports the Commission’s Energy Division staff’s (“ED staff”) proposed clarifications to the existing rules and requirements and further enhancements for import resource adequacy (“RA”).¹ ED staff’s proposal “largely mirrors” the current requirements, with several important clarifications, including a non-resource-specific option with requirements for: (1) fixed energy prices without curtailment, (2) delivery or self-scheduling of energy into the California Independent System Operator Corporation’s (“CAISO”) day-ahead and real-time markets, (3) delivery of energy during the CAISO’s availability assessment hours (“AAH”) and consistent with the Commission’s maximum cumulative capacity (“MCC”) buckets, and

¹ *Administrative Law Judge’s Ruling on Energy Division’s Track 1 Proposal*, dated February 28, 2020, Appendix A (*Energy Division Resource Adequacy (RA) Import Proposal for Proceeding R.19-11-009*), p. 5.

(4) delivery of energy that is not sourced from resources internal to the CAISO balancing authority area.² These clarifications and further enhancements result in improvements to existing import RA rules that will address pressing issues, including the sale of paper capacity that is not backed by any particular resource (also referred to as “speculative supply”) and bidding strategies that rely on loopholes in the RA program to bid at high prices, including at or near the bid cap, that are unlikely to result in CAISO market awards for the dispatch of energy. PG&E believes that ED staff’s proposed requirement to deliver (at bids between -\$150/MWh and \$0/MWh) or self-schedule should largely address these issues, including parties’ concerns regarding the delivery of energy when prices are negative and possibly not needed.

In Rulemaking 17-09-020, some parties expressed concerns with a self-schedule requirement for import RA. These concerns focused on potential inefficiencies that a self-schedule requirement could have on the CAISO’s energy market. For instance, the CAISO argued that a self-schedule requirement for import RA would have a number of unintended impacts, including: reduced flexibility, reduced ability of imports to act as a net load ramping resource, and reduced volume of import RA, among others.³ PG&E believes that adoption of ED staff’s proposal for import RA to deliver energy (at bids between -\$150/MWh to \$0/MWh) instead of self-scheduling, and the requirement for import RA to deliver energy during the AAH and consistent with the MCC buckets, will adequately address many of these concerns.

B. The Proposed Firm Transmission Requirements for Import RA Should Not Be Adopted

CAISO and Powerex Corp. (“Powerex”) both proposed the adoption of firm transmission requirements in their Track 1 proposals, arguing that firm transmission results in more comparable treatment between external and internal supply and minimizes delivery risk.⁴ PG&E

² *Ibid.*

³ See Rulemaking 17-09-020, *Comments of the California Independent System Operator Corporation*, dated September 26, 2019, pp. 2-4.

⁴ See *California Independent System Operator Corporation Track 1 Proposal*, dated February 28, 2020 (“CAISO Proposal”), p. 5; *Track 1 Proposal of Powerex Corp.*, dated February 28, 2020 (“Powerex Proposal”), pp. 16-17.

disagrees that firm transmission is necessary for import RA. A significant issue is that the requirement could result in only a few market suppliers making import RA available due to market power associated with firm transmission rights. Morgan Stanley Capital Group Inc. pointed out that, based on a query it ran on February 25, 2020, approximately 80 percent of the Nevada Oregon Border Source to Sink Firm Transmission is held by a single entity.⁵ This suggests that this entity could exercise market power in the capacity market and significantly increase costs by requiring a higher price for the delivery of import RA (or simply choosing not to release its firm transmission), as doing so may raise the value of other resources that the entity owns. Transmission holdings should not be used as a lever to exercise market power in the capacity market. For these reasons, PG&E urges the Commission to reject CAISO and Powerex’s proposals for firm transmission requirements for import RA until the appropriate mechanisms are in place to mitigate any market power.

Further, PG&E believes it is impractical to assume that balancing areas will change their schedules for releasing firm transmission solely based on a rule change by the Commission. These timing issues should be addressed between CAISO and other balancing areas before such a requirement should be put into place. Moreover, if required, firm transmission could create market inefficiencies and increase costs without a commensurate offsetting benefit to all customers.

C. CAISO’s Recommended Attestation for Import RA Is Insufficient

Another issue with the CAISO Proposal is that it recommends that the Commission require an attestation or other documentation that the import RA “is a specific resource, aggregation of physically linked resources, or capacity in excess of the host balancing authority area or supplier’s existing commitments that is dedicated to CAISO balancing authority area needs.”⁶ Requiring an attestation from the market supplier is unreasonable and likely unfeasible

⁵ *Track 1 Proposal of Morgan Stanley Capital Group Inc. Regarding the Scope, Schedule, and Administration of R.19-11-009*, dated February 28, 2020, p. 9.

⁶ CAISO Proposal, p. 3.

given the lack of Commission jurisdiction over suppliers and external balancing authorities. Further, the market supplier has no means of ensuring that the balancing area comports with the information set forth in the attestation.

D. Specific Resource-Only Requirements Should Be Pursued Through Non-Recallability Agreements with Other Balancing Authority Areas

As discussed above, PG&E shares the goals of ensuring reliable import resources for California, and PG&E believes that ED staff's proposal adequately addresses this need - at least in the short-term. CAISO and Powerex both support a solution that would effectively eliminate non-resource-specific imports.⁷ These proposals, however, fall short in ensuring the resources are indeed available to serve California by failing to address recallability risk. Non-recallability should be addressed through negotiations between CAISO and other balancing authority areas in the Western Electricity Coordinating Council and include pseudo ties and dynamic scheduling. Such agreements would place import RA under the same set of rules as those applicable to internal resources and would facilitate moving to a ruleset in California that only allows for resource-specific imports as proposed by CAISO and Powerex.

E. The Joint Parties' Proposal Warrants Additional Consideration

The Track 1 proposal of Southern California Edison Company ("SCE") and Shell Energy North America (US), L.P. (together, the "Joint Parties") includes a strike price approach that would be tied to the prevailing gas price.⁸ While PG&E lauds the Joint Parties' creative thinking, the strike price approach may not necessarily solve all of the problems of speculative supply, as market suppliers may still bid at high prices, albeit at or near the lowered bid cap. These issues need to be addressed and resolved before such an approach is considered. Until such issues are resolved, PG&E believes ED staff's proposal is better suited to address the underlying import RA issues and, therefore, is preferable at this time.

⁷ See CAISO Proposal, pp. 2-4; Powerex Proposal, p. 16. Both the CAISO Proposal and the Powerex Proposal effectively eliminate non-resource-specific imports by requiring that imports be specified.

⁸ *Southern California Edison Company (U 338-E) and Shell Energy North America (US), L.P.'s Track 1 Proposal*, dated February 28, 2020, pp. 2-6.

